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CONSUMER CREDIT KNOWLEDGE OF A SELECTED GROUP
OF PERSONAL BANKRUPTCY PETITIONERS
IN THE STATE OF UTAH

by

Bernice Nelson

A thesis submitted in partial fulfillment
of the requirements for the degree

of

MASTER OF SCIENCE

in

Household Economics and Management

Approved:

Major Professor

Committee Member

Committee Member

Dean of Graduate Studies

UTAH STATE UNIVERSITY
Logan, Utah

1969

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Bernice Nelson

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ABSTRACT

Consumer Credit Knowledge of a Selected Group
Of Personal Bankruptcy Petitioners
In the State of Utah

by

Bernice Nelson, Master of Science

Utah State University, 1969

Major Professor: Miss Edith Nyman

Department: Household Economics and Management

Consumer credit knowledge of personal bankruptcy petitioners and sources used by the petitioners to gain consumer credit knowledge were investigated. Consumer credit knowledge was defined as any understanding which was found useful in solving problems related to consumer credit. Sources of consumer credit knowledge referred to classes taken, information which had been read, information heard on radio or television, and help received through personal counseling.

Subjects were selected from individuals whose personal bankruptcy cases were heard in the Bankruptcy Court for the District of Utah during the month of July, 1968. The sample consisted of the first 60 petitioners who were willing to participate in the research project.

Research data was obtained from three sources: (a) a consumer credit knowledge test, (b) a personal data questionnaire, and (c) the official bankruptcy petition.

Results indicate that this group of personal bankruptcy petitioners had low consumer credit knowledge (60 percent or less) as measured by their response to questions on a consumer credit knowledge test. The

petitioners had used a low number of sources (two or less) to gain consumer credit knowledge.

(59 pages)

INTRODUCTION

Statement of the Problem

Consumer credit has become an area of major importance in the financial planning of families in the United States (4). Huber (8) indicated that spending patterns in America have changed drastically from the traditional emphasis on thrift and cash purchasing to today's general acceptance of installment credit to satisfy various family wants in our affluent society.

Today people are more favorably inclined toward the use of consumer credit (6). Dolphin said:

This change in attitude has been accompanied by a new outlook on the misuse or overuse of credit. Failure to pay creditors does not engender the moral repercussions of the past. The new view is reflected in the development of more liberal laws pertaining to bankruptcy. (3, p. 1)

"The most glaring evidence that over-use of credit is becoming a problem for an increasing number of families is the number of personal bankruptcy cases being filed in our federal courts," stated Huber (8, p. 2) in his study of the financially over-extended family.

Statistics published by the Administrative Office of the United States Courts (1) indicate that 92 percent of all bankruptcies filed in the 1967 fiscal year were nonbusiness bankruptcies. Utah's non-business bankruptcies more than doubled in the six year period from 1962 to 1967. Utah reported 620 cases in 1962 and 1,557 cases in 1967. (Figures given are for fiscal years ending June 30.) The 1967 figure represents 155 bankruptcies in Utah per 100,000 population

compared to the national average of 98 per 100,000 (13).

According to Goble (5, p. 134) "the rise of personal bankruptcies is, at least in part, a direct outgrowth of the misuse of consumer credit." Dolphin (3) found in some cases uncontrollable factors forced a family into financial distress, but financial difficulties were usually a result of mismanagement of funds.

Misbach (11) recognized that many school courses teach an individual how to earn a living while few courses stress the importance of wise money management. However, knowledge of credit has generally been assumed to be one of the key factors influencing effective money management. Staab, Heywood, and DeVivo commented:

Competence to manage finances requires knowledge and abilities of various types. . . . To use credit wisely requires knowledge of the kinds of credit available, their costs, and the legal regulations governing time-payments contracts. (16, p. 91)

Jackson (2), chief of the Division of Bankruptcy, Administrative Office of the United States Courts, assumes that the biggest problem or cause of personal bankruptcy may be lack of adequate training on the part of the consumer to understand and cope with our modern complex credit system.

This investigation was conducted (a) to determine the consumer credit knowledge of personal bankruptcy petitioners and (b) to determine sources used by the personal bankruptcy petitioner to obtain consumer credit knowledge.

The following hypotheses were formulated:

1. Personal bankruptcy petitioners have low consumer credit knowledge (60 percent or less) as indicated by their response to a specific consumer credit knowledge test.

2. Personal bankruptcy petitioners used a low number of sources (two or less) to gain consumer credit knowledge.

Definition of Terms

As a basis for this study, the following definitions were accepted:

Personal Bankruptcy Petitioner--an individual seeking to have his debts discharged "through the legal procedure specified in the Federal Bankruptcy Act," (10, p. 10)

Consumer Credit--"credit used by the consumer to help finance the purchase of goods and services for personal consumption or to refinance debts originally incurred for such purchases." (17, p. 22)

Consumer Credit Knowledge--any understanding which is found useful by an individual in solving problems related to consumer credit.

Sources of Consumer Credit Knowledge--sources which have been used to gain consumer credit knowledge. Sources refer to classes taken, information read or heard on radio or television, and help received through personal counseling.

REVIEW OF LITERATURE

Personal Bankruptcy

In recent years as bankruptcy has increased several research investigators have examined the bankruptcy situation. This review of literature describes many of the characteristics which have been associated with personal bankruptcy petitioners.

Profile of the bankruptcy petitioner

In 1966 Herrmann (7) made a survey of recent bankruptcy studies. He compiled the results of studies conducted by Brosky in Seattle, Washington (1965), Dolphin in Flint, Michigan (1965), Herrmann in Sacramento, California (1965), and Myers in the State of Maryland (1961).

According to Herrmann:

The majority of the bankrupts in the four studies were relatively young married men in their early or mid-30's or younger. . . . The median number of children in the bankrupts' families was three. . . . Although all occupational groups were represented among the bankrupts, the blue-collar occupations were substantially over-represented in relation to their numbers in the local labor force in all four studies. The incomes of the bankrupts in the year prior to filing were low compared to those of other families in the area. (7, p. 325)

Matsen reported similar characteristics in her 1966 study of bankruptcy petitioners in Portland, Oregon.

Composition of the sample personal and family characteristics showed the median petitioner to be male, 28 years old and married at the time of the interview. He had been married for four years. His household included four members, two of whom were children. His family was in the child bearing stage of the life cycle.

Both the petitioner and his spouse had completed the twelfth grade. His occupation was machine operator or semi-skilled employee. (10, p. 118-119)

Causes of bankruptcy

Herrmann (7) identified the following factors which appeared to have been the cause of the bankrupts' financial distress: (a) a decline in income which interfered with debt-carrying capacity, (b) unanticipated expenses, (c) marital problems and divorce, and (d) accumulation of a debt of unmanageable size.

Dolphin (3) concluded that the average personal bankrupt is representative of individuals who are in the difficult period of the life cycle when their families are young and economic security is still to be realized in the future.

In discussing the causes of personal bankruptcy in Ohio, Mathews indicated that

for over one-half of the bankrupts the cause of the financial crisis which terminated in bankruptcy was outside the bankrupt's control--namely, a reduction in income, medical expenses, personal liability suits, or marital trouble.

Slightly over one-fourth of the bankrupts were caused by a lack of prudent financial management, a factor within the bankrupt's control. . . . These bankrupts tended to over-extend themselves even though they intended to repay. The end result was intolerable debt and bankruptcy. (9, p. 221)

Need for consumer education

In Misbach's (11) 1964 study he concluded that little was learned by those experiencing bankruptcy. Bankruptcy did not teach financial management nor did it solve the individual's basic problems. Misbach

suggested that "more instruction could be given in the school concerning personal finances, covering such subjects as budgeting and the use of credit." (11, p. 39)

Huber's goal was to find ways of meeting the identified needs of families with over-extended credit. He concluded:

Fundamentally what the times require is a broad prevention program of consumer education to orient American families, particularly young people, to a changing economy in which the rapid extension of consumer credit is thoroughly revamping long-held family values concerning the use of income, Envisaged is a program that should reach the child in his early years and permeate his education at home, at school, and at church. (8, p. 42)

Consumer Credit Knowledge

Researchers have not made an attempt to determine the consumer credit knowledge of personal bankruptcy petitioners. However, there are several studies of consumer credit knowledge which are closely related to the present investigation.

In 1961 Spitze (15) investigated consumer credit knowledge of a selected group of women and the relationship of such knowledge to attitudes, use of credit, interest rates paid, and selected characteristics of the women. She found that the women had a rather meager knowledge of consumer credit. However, the women with higher educational levels had a greater knowledge of consumer credit and paid lower rates for their credit. Spitze also noted that the amount of credit used was influenced by attitudes toward credit. Women with little credit knowledge were on the extreme ends of the credit attitude scale.

Edwards (4), in a 1964 study of the inter-relationships between consumer credit knowledge, credit use, and other selected factors, found that married college students were lacking in consumer credit

knowledge. Edwards concluded that husbands had higher levels of credit knowledge than their wives, and that married student households with greater credit knowledge used more consumer credit and paid lower interest rates for the use of credit.

Thompson's (17) 1965 research involved the constructing of an instrument to measure the consumer credit knowledge of high school seniors. The high school "pupils tested showed a relatively good knowledge of credit ratings and credit unions." (17, p. v) The pupils were weakest in the ability required to determine consumer credit charges, and the computation of those charges. They also had little knowledge of new developments in consumer credit financing such as the debt pooler and revolving charge account credit.

In 1967 Muller (12) compared the consumer economic knowledge of women living in a large eastern city with that of women living in a small midwestern town in the United States. The researcher observed differences in living patterns of the people in these two communities but found no statistically significant difference in the overall consumer economic knowledge of the two groups. Results indicated an overall lack of adequate consumer economic knowledge in both groups of women.

Consumer credit behavior was studied by Goble (5) in 1968 as an attempt to analyze the effective and noneffective use of consumer credit. He indicated a need for further research to determine if effective utilization of consumer credit is a function of the individual's consumer credit knowledge.

Sources Used to Gain Consumer Credit Knowledge

Many statements have been made concerning the need for additional consumer credit knowledge to cope with problems in our complex society. However, very little work has been done to determine the sources individuals are now using to obtain consumer credit knowledge.

Ratner (14) indicated that consumer education is readily available for the middle-income consumer. He can receive it in his daily newspaper, special library displays, lectures, or in many pocket editions at a corner drug store. However, the low income consumer is not aware that this information exists.

Muller (12) concluded that the important questions today are: how can a consumer get adequate and reliable consumer information, and how can we help the consumer to use more efficiently the information that is available.

Spitze's (15) research was used as a basis for adult education planning. She had women identify the sources they would be willing to use to gain consumer credit knowledge. Over one-half of the women indicated they would watch television programs or read newspaper articles on consumer credit. Thirty to forty percent were interested in radio programs or books, and fifteen to twenty percent were interested in library courses, lectures, and adult education courses. The women showed very little interest in university courses, and only two-thirds of the women believed additional consumer credit knowledge would be of any value to them.

METHODS AND PROCEDURES

Feasibility of Research Project

Contact was made with the Federal Referee in Bankruptcy for the District of Utah regarding the feasibility of a research project with bankruptcy petitioners. The Referee agreed that a project to identify consumer credit knowledge was feasible and had merit. He gave permission for the investigator to meet with the bankruptcy petitioner and administer a personal data questionnaire and consumer credit knowledge test provided the petitioner and his attorney gave their consent. The court conference room was made available to the investigator to administer the questionnaire and the knowledge test.

Selection of Subjects

Subjects were selected from individuals whose personal bankruptcy cases were heard in the Bankruptcy Court for the District of Utah during the month of July, 1968. Since the bankruptcy petitioners were not obligated to participate, the sample consisted of the first 60 petitioners who were willing to take part in the research project.

Procedure Used to Contact Subjects

A notice of the first meeting of creditors for each personal bankruptcy case to be heard in July, 1968, was sent to the investigator by the clerk of the bankruptcy court. The investigator then sent a letter to both the bankruptcy petitioner and his attorney explaining

the purpose of the study and requesting the petitioner's participation in the study. The petitioner was requested to meet with the research investigator immediately following his court hearing.

At the conclusion of the court hearing the Referee of Bankruptcy reminded the petitioner that the representative from Utah State University was conducting some research in the conference room. He encouraged the petitioner to take a few minutes and participate in the study.

The Study Instruments

Research data was obtained from three sources: a consumer credit knowledge test, a personal data questionnaire, and the official bankruptcy petition.

1. The consumer credit knowledge test, which consisted of 25 multiple-answer statements concerning various aspects of consumer credit, was used to measure the consumer credit knowledge of personal bankruptcy petitioners.

The consumer credit knowledge test included: 17 questions from Spitze (15) (questions 1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 14, 15, 16, 17, 18, 22, and 23); four questions used by Thompson (17) (questions 13, 19, 21, and 25); and four questions developed by the investigator and approved by the thesis committee (questions 5, 12, 20, and 24).

The questions on the consumer credit knowledge test were grouped into four general categories, testing ability to:

- (a) Compute interest and rates - questions 5, 9, 10, 11, 14, 16, 22, and 24.
- (b) Recognize varying rates charged by credit sources - questions 1, 3, 8, and 18.

(c) Comprehend some practices (other than rates charged) of credit sources - questions 2, 4, 6, 7, 13, 15, 17, 21, and 23.

(d) Understand protection and services provided creditors and consumers - questions 12, 19, 20, and 25.

2. The personal data questionnaire identified the educational and marital status of the bankruptcy petitioner, and sources used by the petitioner to gain consumer credit knowledge.

3. Descriptive information obtained from the official bankruptcy petitions on file at bankruptcy court included the petitioners income, debts, assets, occupation, and reasons for filing bankruptcy.

Testing Procedure

At the conclusion of their court hearings the participating bankruptcy petitioners met with the investigator in the conference room and completed the personal data questionnaire and consumer credit knowledge test. Descriptive information was later recorded from the official bankruptcy petitions.

Analysis of Data

Consumer credit knowledge

Knowledge scores for the bankruptcy petitioners were determined by the number of questions answered correctly on the consumer credit knowledge test.

Sources used to gain consumer credit knowledge

The number of sources a bankruptcy petitioner had used to gain consumer credit knowledge was based on the number of sources the peti-

tioner checked on the personal data questionnaire.

RESULTS AND DISCUSSION

The present investigation was concerned with (a) the consumer credit knowledge of personal bankruptcy petitioners and (b) the number of sources used by these petitioners to gain consumer credit knowledge.

Sample

The consumer credit knowledge test and personal data questionnaire were administered to 60 personal bankruptcy petitioners, 47 male and 13 female. The sample included seven married couples. Since the married couples had filed separate petitions, the husbands and wives were counted separately.

Approximately 70 percent of the personal bankruptcy petitioners whose cases were heard in the Utah courts during the first four weeks of July, 1968, participated in the study. Hearings were heard in Ogden, Utah, on two days and in Salt Lake City, Utah, on six days. All Utah bankruptcy cases are heard in these two locations.

In general the petitioners were very willing to spend the 10 to 15 minutes required to complete the personal data questionnaire and the consumer credit knowledge test. Several petitioners appeared interested in the test, and they stayed to ask questions or requested that the test answers be mailed to their homes.

Characteristics of the Bankrupt

Age of petitioners

The ages of the 60 petitioners ranged from 21 to 57 years (Table 1)

with a mean age of 34 years and a median age of 31 years. The median age of the petitioners in this study appears to be consistent with previous findings. Herrmann found that the majority of the bankrupts in Flint, Michigan, Sacramento, California, Seattle, Washington, and the State of Maryland, "were young married men in their early or mid-30's or younger." (7, p. 325)

Table 1. Distribution of 60 personal bankruptcy petitioners according to age

Age group	Number of petitioners	Percent
20 - 29 years	22	36.67
30 - 39 years	20	33.33
40 - 49 years	15	25.00
50 - 59 years	3	5.00

Petitioners' marital status

Over three-fourths or 76.67 percent of the bankruptcy petitioners who participated in this investigation were married. Another 5 percent were separated from their spouse, and 15 percent were divorced. Only 3.33 percent of the petitioners were single (Table 2).

Number of children

The average number of dependent children was figured on the basis of children per household. (The married couples included in the study who had filed separate petitions were counted as two petitioners but as one household. The single petitioners were not considered heads of households.) The number of dependent children per household ranged from

Table 2. Distribution of 60 personal bankruptcy petitioners according to marital status

Marital status	Number of petitioners	Percent
Married	46	76.67
Separated	3	5.00
Divorced	9	15.00
Single	2	3.33

zero to eight (Table 3). The mean number of children supported by the 51 households was 2.67, and the median number was 2.5.

Table 3. Distribution of 51 heads of households filing personal bankruptcy petitions according to number of dependent children

Children	Number of households	Percent
0	6	11.76
1	5	9.80
2	14	27.45
3	10	19.61
4	11	21.59
5	3	5.80
6	1	1.98
7	0	0.00
8	1	1.98

Amount of education

The education of the 60 petitioners ranged from less than junior high school to the completion of a university degree (Table 4). Only 26.67 percent of the petitioners had not completed high school, thus the educational level reported by this group of petitioners appeared somewhat higher than that reported in previous bankruptcy studies. Matsen (10) found that 48 percent of her sample, and Dolphin (3) reported that 76 percent of the petitioners in his study had not completed a high school education.

Table 4. Distribution of 60 personal bankruptcy petitioners according to amount of education

Education	Number of petitioners	Percent
Less than junior high school	4	6.67
Junior high school	12	20.00
High school	29	48.33
Trade school or two years at a university	13	21.67
University degree	2	3.33

Type of employment

The employment of the 60 petitioners, taken from the official bankruptcy file, could not be readily classified into types. In some cases the petitioner listed his occupation as to type while others listed their place of employment and gave no indication as to type of work they performed. No one type of employment appeared to be prominent, but many of the petitioners were employed at jobs which required either unskilled or

semi-skilled manual labor. Among these listing occupations were three machine operators, three truck drivers, three gardeners, two miners, and two beauticians. Only six of the bankrupts indicated that they were unemployed, and two of these were students.

Income of petitioners

The 1967 incomes (income for year prior to filing) were obtained from the official bankruptcy petitions. The annual incomes reported by 54 of the 60 petitioners ranged from \$340 to \$14,600 (Table 5). The mean income was \$4,869 with a median income of \$5,000.

Table 5. Distribution of 54 personal bankruptcy petitioners according to annual income

Annual income	Number of petitioners	Percent
0 - \$1,999	7	12.96
\$2,000 - \$3,999	6	11.11
\$4,000 - \$5,999	25	46.28
\$6,000 - \$7,999	13	24.07
\$8,000 - and above	3	5.55

The \$5,000 median income of petitioners in this study is very close to the median income of petitioners in previous bankruptcy studies. Herrmann (7) reported the following median incomes: Flint, Michigan, \$4,656; Sacramento, California, \$4,000; Seattle, Washington, \$5,657; and the State of Maryland, \$4,752.

Amount of debt

The amount of debt for the 60 petitioners ranged from \$2,301.71 to \$127,726.34 (Table 6) with a mean debt of \$13,527.54 and a median debt of \$7,218.60. The median debt appears the more realistic because of the extremely large debt listed by one petitioner. However, very few of the bankruptcy petitioners in this sample had debts close to the average amount. Most of them had debts either much larger or much smaller. The mean debt listed by Misbach (11) in a 1964 study of Utah bankruptcy was \$10,885.

Table 6. Distribution of 60 personal bankruptcy petitioners according to amount of debt

Amount of debt	Number of petitioners	Percent
\$2,000 - \$5,999	25	41.67
\$6,000 - \$9,999	10	16.67
\$10,000 - \$13,999	4	6.67
\$14,000 - \$17,999	6	10.00
\$18,000 - and above	15	25.00

Value of assets

The list of assets which the petitioners filed with the court ranged in value from \$35 to \$7,349 (Table 7). The mean value of the assets owned by a petitioner was \$1,256.12, and the median asset value was \$461.60.

Reasons for filing bankruptcy petition

Reasons given by the participating petitioners for filing bankruptcy

Table 7. Distribution of 60 personal bankruptcy petitioners according to value of assets

Value of assets	Number of petitioners	Percent
0 - \$499	32	53.33
\$500 - \$999	13	21.67
\$1,000 - \$4,999	11	18.33
\$5,000 - and above	4	6.67

were obtained from the official bankruptcy file. Each petitioner could list as many reasons as he considered appropriate (Table 8).

Table 8. Distribution of 60 personal bankruptcy petitioners according to reasons stated for filing bankruptcy petitions

Reason	Number of petitioners	Percent ^a
Could not meet obligations	49	81.86
Actual garnishments	12	20.00
Threatened unemployment	10	16.67
Threatened garnishments	5	8.33
Unemployment	3	5.00
Unforeseen obligations	3	5.00
Threatened lawsuit by creditors	1	1.57

^a Percent totals more than 100 because petitioners could list as many reasons as they considered appropriate.

Over-extension of credit and wage garnishments appeared to be of major concern to the petitioners. Reasons listed which indicated these

concerns were: inability to meet obligations, listed by 81.86 percent; wage garnishments, listed by 20.00 percent; and threatened unemployment, listed by 16.67 percent. It is likely that many of the jobs that were threatened may have been threatened as a result of wage garnishment. Another 8.33 percent indicated that they were filing because of threatened garnishment. Factors which appeared to be of less concern for this group of petitioners were unemployment, unforeseen obligations, and threatened lawsuits.

Analysis of the Consumer Credit Knowledge Test

The consumer credit knowledge test consisted of 25 multiple-answer statements concerning various aspects of consumer credit. Table 9 shows the answer selection for each question on the test.

Questions most frequently answered incorrectly

The questions most frequently answered incorrectly were numbers 4, 14, 20, 21, and 22. On an average these five questions were only answered correctly by 9.00 percent of the petitioners.

Questions 4 and 14 required an understanding of "discount rate," and question 21 required that petitioners know the meaning of the term "power of attorney." It appeared that the petitioners were unfamiliar with these terms. Some knowledge of Utah credit laws was necessary to answer question 20. Question 22 required the ability to figure the interest rate when a charge of one dollar was made for the use of 50 dollars for 30 days.

Table 9. Answers selected to questions on the consumer credit knowledge test by 60 personal bankruptcy petitioners ^a

Question	(a)	(b)	(c)	(d)	(e)	Blank ^b
1	<u>46</u>	2	1	5	6	0
2	1	<u>39</u>	0	11	9	0
3	2	2	<u>50</u>	2	3	1
4	32	<u>0</u>	2	8	17	1
5	9	12	<u>18</u>	2	19	0
6	<u>55</u>	1	2	1	1	0
7	21	0	<u>16</u>	21	2	0
8	1	<u>54</u>	0	0	4	1
9	37	4	5	2	11	1
10	25	1	<u>14</u>	13	7	0
11	10	<u>22</u>	10	5	13	0
12	5	2	<u>21</u>	1	31	0
13	6	6	6	<u>40</u>	2	0
14	20	6	<u>4</u>	2	28	0
15	2	2	3	<u>47</u>	5	1
16	<u>39</u>	7	6	1	6	1
17	36	<u>17</u>	1	0	6	0
18	4	27	0	<u>26</u>	3	0
19	<u>53</u>	0	2	4	1	0
20	2	20	0	8	29	1
21	6	16	5	10	21	2
22	15	5	6	<u>10</u>	23	1
23	<u>22</u>	6	2	16	13	1
24	10	<u>34</u>	4	1	10	1
25	2	<u>31</u>	10	5	12	0

^a Figures represent number of bankruptcy petitioners selecting each answer. The correct answer is underlined.

^b Number of petitioners not answering the question.

Questions most frequently
answered correctly

Questions 1, 3, 6, 8, 15, and 19 were answered correctly most frequently. On an average these six questions were answered correctly by 84.72 percent of the petitioners.

Question 1 required a comparison of rates charged by a small loan company and an installment retail dealer, while question 3 required comparison of bank practices and those of an installment retail dealer. For question 6 it was necessary to know the penalty if one failed to make payments on an installment purchase. Question 8 required an understanding of interest rates charged by each of the lenders listed. To answer question 15 the petitioners needed some concept as to why a car dealer might pressure them into financing the purchase at a particular place of business. A knowledge of the procedure to be used when one loses a credit card was necessary to answer question 19.

Category analysis of the consumer
credit knowledge test

The 25 questions on the consumer credit knowledge test were divided into four categories according to ability to: (a) compute interest and rates, (b) recognize varying rates charged by credit sources, (c) comprehend some practices (other than rates charged) of credit sources, and (d) understand protection and services provided creditors and consumers. Table 10 shows the percentage average of questions answered correctly on the consumer credit knowledge test according to category of questions.

Computing interest and rates. The first category, (questions 5, 9, 10, 11, 14, 16, 22, and 24) testing ability to compute interest and rates, seemed to be the most difficult for this group of bankruptcy petitioners. On an average these questions were answered correctly by

Table 10. Comparison of percentage average of questions answered correctly on the consumer credit knowledge test according to category of questions

Category	Percentage average
(a) compute interest and rates	34.43
(b) recognize varying rates charged by credit sources	73.33
(c) comprehend some practices (other than rates charged) of credit sources	44.82
(d) understand protection and services provided creditors and consumers	47.08

34.43 percent of the petitioners. This category also appeared to be the most difficult for the women in Spitze's (15) study. However, it was the least difficult category for the wives in the study conducted by Edwards (4).

Revolving credit is commonly stated as the percent charged monthly on the unpaid balance. On question 5 petitioners were expected to recognize the true annual interest rate being charged when given the stated monthly interest rate. Thirty percent answered correctly while 31.67 percent indicated they did not know. Fifteen percent answered $1 \frac{1}{4}$ to $1 \frac{1}{2}$ percent which was stated as the monthly interest rate.

Question 9 required that the interest rate be computed by means of the constant-ratio formula. Although the petitioners were told that they could figure on the questionnaire, no one attempted to use the formula. The correct answer of about 12 percent was checked by only 8.33 percent of the petitioners while 61.67 percent of the petitioners checked 6 percent.

Question 10 asked the effect on the interest rate charged in question 9 when a down payment was made on the purchase. Less than one-fourth, 23.33 percent, answered correctly that the interest rate would increase. There were 41.67 percent who answered that the interest rate would decrease.

Question 11 required mathematical computations to determine the dollar cost of the interest paid on a purchase. Several of the petitioners made some attempt to compute the dollar cost, and 36.67 percent checked the correct amount charged. In the study by Edwards (4) 67.60 percent answered this question correctly.

Question 14 was the most difficult question in the first category. This question asked the true annual interest rate on a loan which charged a discount rate of 6 percent. Only 6.67 percent answered correctly, while 46.67 percent indicated they did not know. Edwards (4) found this to be the most difficult question for both husbands and wives. In her study 11.04 percent of the subjects answered it correctly.

Question 16, which was answered correctly by 65.00 percent of the petitioners, was the least difficult in this category. Since the correct answer was 6 percent, it is possible that some who were unable to compute the rate chose 6 percent as a "reasonable" answer. There were 11.67 percent who answered 12 percent. Perhaps they associated it with the fact that \$12 interest was paid for the \$200 borrowed. Ten percent answered "I don't know."

Question 22 asked the interest rate when a one dollar charge was made for the use of 50 dollars for 30 days. The question was answered correctly by 16.67 percent. Only one petitioner attempted to compute the answer on the test sheet. "I don't know" was checked by 38.33 per-

cent of the petitioners.

Question 24 required the ability to determine which place of business charged the lower total cost for an item purchased "on time." It was necessary to recognize that the item with the lower price tag had a higher total cost because of the addition of a monthly service charge. Over one-half, 56.67 percent, of the petitioners checked the correct answer.

Recognizing varying rates charged by credit sources. The second category, (questions 1, 3, 8, and 18) which tested the ability to recognize varying rates charged by credit sources, was apparently the least difficult for the bankruptcy petitioners. On an average these questions were answered correctly by 73.33 percent of the petitioners. This category was also the least difficult for the women in Spitze's (15) study where 52.50 percent answered correctly, and it was the least difficult for the husbands in Edwards' (4) study where 58.44 percent answered correctly.

On question 1 there were 76.67 percent of the petitioners who were correct in indicating that loan companies usually have higher finance charges than installment retail dealers.

Experience with borrowing money may have been helpful on question 3 where 83.33 percent of the petitioners correctly checked that bank rates are sometimes lower than rates charged by installment dealers.

Question 8, which was the least difficult in this category, was answered correctly by 90.00 percent of the petitioners. Experience with the use of credit may have helped the petitioners to know that of the sources listed credit unions usually offered the lowest rate of interest.

The most difficult question in this category was number 18. Only

43.33 percent answered correctly that a loan on an insurance policy would have the lowest true annual interest rate. However, 45.00 percent checked a commercial bank loan which was the source offering next to the lowest interest rate.

Practices (other than rates charged) of credit sources. The questions in category three, (questions 2, 4, 6, 7, 13, 15, 17, 21, and 23) were concerned with practices (other than rates charged) of credit sources. On an average these nine questions were answered correctly by 44.82 percent of the petitioners.

In answer to question 2 there were 65.00 percent of the participating petitioners who correctly indicated that credit unions make loans to any member.

Question 4 was the most difficult in this category and the most difficult question on the consumer credit knowledge test. It was not answered correctly by any of the petitioners. The question tested the ability to comprehend "discount rate." Perhaps because the word discount implies a reduction, 53.33 percent indicated that the rate was reduced when you repaid the loan within 90 days. Although this question was difficult for the subjects in Spitze's (15) and Edwards' (4) studies, it was answered correctly by 15 and 13 percent of their participants.

Question 6 was answered correctly more often than any other question on the consumer credit knowledge test. There were 55 petitioners or 91.67 percent who indicated that if you are unable to keep up your payments on the installment plan the seller will most likely pick up the merchandise and keep the payments you have made. Perhaps many bankruptcy petitioners had learned this through experience.

On question 7 there were 35.00 percent who indicated a cash custom-

er would pay less than a 30 day charge customer. The correct answer (both would pay the same price) was given by 26.67 percent.

Wage garnishment is a contributing factor in many bankruptcy cases. In answer to question 13, there were 66.67 percent of the petitioners who checked the correct meaning of the term "wage garnishment."

Question 15 was answered correctly by 78.33 percent of the petitioners who indicated that if an automobile dealer requires or pressures you to finance your purchase at a particular place it is likely an indication that he gets a kickback on the finance charges.

Question 17 asked the length of time usually allowed by loan companies for repayment of a loan. The right answer (6 to 18 months) was given by 28.33 percent. Another 60.00 percent indicated the loan would be extended for over 24 months.

The term "power of attorney" which was used in question 21, appeared to be unfamiliar to this group of bankruptcy petitioners. The bankruptcy petitioners apparently were not aware that when they sign a contract providing for the power of attorney they have given the creditor the right to attach their wages. This question was answered correctly by 8.33 percent of the petitioners.

In answer to question 23 there were 36.67 percent who realized that a loan from a pawnbroker need not be repaid if the borrower did not wish to.

Protection and services provided creditors and consumers. Category four (questions 12, 19, 20, and 25) tested ability to understand protection and services provided creditors and consumers. On an average these questions were answered correctly by 47.08 percent of the petitioners.

In answer to question 12, there were 35.00 percent who correctly

checked that the "truth-in-lending" law required interest rates stated in terms of true annual percentage rates. However this question was answered "I don't know" more often than any other question on the test. Over one-half or 51.67 percent of the petitioners admitted they did not know the answer.

In answer to question 19, there were 88.33 percent who correctly indicated that when one loses a credit card they should notify the credit card company by wire or phone and then send a registered letter to inform them of the loss.

On question 20, only 13.33 percent of the bankruptcy petitioners correctly indicated that the law in Utah allowed a legal rate of 6 percent interest to be charged on delinquent accounts if a rate had not previously been stated.

Question 25 required the knowledge that a debt pooler is one to whom you pay a fee for using your money for the payment of your debts. This question was answered correctly by 51.67 percent of the petitioners.

Hypothesis 1: Personal Bankruptcy Petitioners

Have Low Consumer Credit Knowledge

The first hypothesis to be tested stated that personal bankruptcy petitioners have low consumer credit knowledge (60 percent or less) as indicated by their response to a specific consumer credit knowledge test.

Scores received on the consumer credit knowledge test were used to classify petitioners as having a low, medium, or high level of consumer credit knowledge. A score of 60 percent or less (15 or less questions answered correctly) was classified as low consumer credit knowledge, 61

to 80 percent (16 to 20 questions answered correctly) medium consumer credit knowledge, and 81 to 100 percent (21 to 25 questions answered correctly) high consumer credit knowledge. The consumer credit knowledge test scores for the 60 personal bankruptcy petitioners ranged from two to 22 (Table 11).

Table 11. Distribution of 60 personal bankruptcy petitioners according to score obtained on the consumer credit knowledge test ^a

Test score	Number of petitioners
2 Low ^b	1
4	2
5	2
6	1
7	3
8	3
9	6
10	8
11	8
12	3
13	8
14	2
15	6
16 Medium ^b	3
17	1
19	2
22 High ^b	1

^a Possible score 25.

^b Low (15 or less correct), medium (16 to 20 correct), and high (21 to 25 correct) levels of consumer credit knowledge.

Eighty-eight and thirty-three hundredths percent of the participating petitioners had low credit knowledge as measured by their score on the consumer credit knowledge test. Ten percent of the petitioners had medium, and 1.67 percent had high consumer credit knowledge (Table 12). The mean consumer credit knowledge test score of the 60 participants was 11.27 or 45.08 percent.

Table 12. Distribution of 60 personal bankruptcy petitioners according to level of consumer credit knowledge

Level of knowledge	Number of petitioners	Percent
Low (60 percent and less)	53	88.33
Medium (61 to 80 percent)	6	10.00
High (81 to 100 percent)	1	1.67

It was interesting to note that as the education of the bankruptcy petitioners increased, the consumer credit knowledge test score also increased (Table 13).

Table 13. Comparison of consumer credit knowledge mean test scores by educational level of 60 personal bankruptcy petitioners

Level of education	Mean test score	Percent
Less than junior high school	7.25	29.00
Junior high school	9.83	39.32
High school	11.52	46.08
Trade school or two years at a university	12.31	49.20
University degree	17.50	69.00

Eighty-eight and thirty-three hundredths percent of the petitioners received a low score (60 percent or less) on the consumer credit knowledge test, with a mean score of 45.08 percent. Thus hypothesis one, that personal bankruptcy petitioners have low consumer credit knowledge, was accepted.

Analysis of Sources Used to Gain Consumer Credit Knowledge

The research investigator identified 13 sources which may have been available to the petitioners as a means of gaining consumer credit knowledge. The participating bankruptcy petitioners checked the sources they had used to gain consumer credit knowledge (Table 14).

Table 14. Distribution of 60 personal bankruptcy petitioners according to the sources they indicated they had used to gain consumer credit knowledge

Source of knowledge	Number of petitioners	Percent ^a
Classes		
University class	2	3.33
Adult education class	0	0.00
Extension class	1	1.67
High school class	13	21.67
Trade school class	1	1.67
Sources other than classes		
Place of employment	10	16.67
Personal counseling	11	18.33
Books	8	13.33
Pamphlets	11	18.33
Radio	5	8.33
Television	8	13.33
Newspapers	11	18.33
Magazines	10	16.67

^a Percent totals more than 100 because petitioners were to list all sources they had used to gain consumer credit knowledge.

High school classes were the most common source used by the petitioners in gaining consumer credit knowledge. They were used by 21.67 percent of the participants. Other classes listed on the personal data questionnaire were used much less frequently as a source of consumer credit knowledge.

Sources other than classes used most frequently by the petitioners were personal counseling, pamphlets, and newspapers. These sources were used by 18.33 percent of the petitioners. There were 16.67 percent of the petitioners who indicated they had obtained consumer credit knowledge from their place of employment. Sixteen and sixty-seven hundredths percent checked magazines as a source of knowledge. The petitioners listed the following magazines as sources used to obtain consumer credit knowledge: Argosy, Better Homes and Gardens, CDP Credit Association, Changing Times, Consumer's Guide, Consumer Report, Extension Food Buying, Homemakers, House Beautiful, Ladies' Home Journal, Newsweek, Reader's Digest, and Time. Only 13.33 percent had used books and television as a consumer credit knowledge source while 8.33 percent had gained some consumer credit knowledge from radio programs.

Hypothesis 2: Personal Bankruptcy Petitioners Have Used
A Low Number of Sources to Gain Consumer Credit Knowledge

The second hypothesis to be tested stated that personal bankruptcy petitioners used a low number of sources (two or less) to gain consumer credit knowledge.

The 13 sources identified by the investigator included five classes and eight other sources. Analysis was based on the number of sources the petitioners indicated they had used to gain consumer credit knowledge.

Petitioners were classified as those having used a low, medium, or high number of sources to gain consumer credit knowledge. Two or less sources were considered a low number, three to five a medium number, and six to 13 a high number of sources (Table 15).

Table 15. Distribution of 60 personal bankruptcy petitioners according to number of sources used to gain consumer credit knowledge

Number of sources	Number of petitioners	Percent
Low (two or less sources)	45	75.00
Medium (three to five sources)	13	21.67
High (six to 13 sources)	2	3.33

Seventy-five percent of the petitioners had used a low number, 21.67 percent a medium number, and 3.33 percent a high number of sources to gain consumer credit knowledge. The mean number of sources used by the 60 personal bankruptcy petitioners was 1.52.

It was interesting to note that with each additional amount of education there was an increase in the number of sources used by the petitioners to gain consumer credit knowledge (Table 16).

Table 16. Comparison of average number of consumer credit knowledge sources used to gain consumer credit knowledge by educational level of 60 personal bankruptcy petitioners

Level of education	Average number of sources		
	Total sources	Classes	Other sources
Less than junior high school	0.00	0.00	0.00
Junior high school	0.92	0.00	0.92
High school	1.62	0.38	1.24
Trade school or two years at a university	2.08	0.38	1.67
University degree	3.00	0.50	2.50

Seventy-five percent of the petitioners had used a low number of sources (two or less) in gaining consumer credit knowledge, with the mean number of sources used by the 60 participants being 1.52. Thus hypothesis two, that personal bankruptcy petitioners had used a low number of sources to gain consumer credit knowledge, was accepted.

SUMMARY AND CONCLUSIONS

Consumer credit knowledge of personal bankruptcy petitioners and sources used by the petitioners to gain consumer credit knowledge were investigated. Consumer credit knowledge was defined as any understanding which was found useful in solving problems related to consumer credit. Sources of consumer credit knowledge referred to classes taken, information which had been read, information heard on radio or television, and help received through personal counseling.

Subjects were selected from personal bankruptcy petitioners whose cases were heard in the Bankruptcy Court for the District of Utah during the month of July, 1968. Petitioners were contacted and asked to meet with the investigator following their court hearing. Since the services of the petitioners were voluntary, the sample consisted of the first 60 petitioners who were willing to participate in the research project.

The average participant was in his early thirties, a married man, and the father of two or three children. He had graduated from high school and his present employment required unskilled or semi-skilled manual labor. Financial information showed that the petitioner received a \$5,000 annual income, owed his creditors \$7,218.60 and owned assets valued at 461.50.

Research data was obtained from three sources: (a) a consumer credit knowledge test, (b) a personal data questionnaire, and (c) the official bankruptcy petition.

The consumer credit knowledge test and personal data questionnaire were administered to the bankruptcy petitioners following their court

hearing. Descriptive information was recorded from the official bankruptcy file.

Two hypotheses were formulated for testing:

1. Personal bankruptcy petitioners have low consumer credit knowledge (60 percent or less) as indicated by their response to a specific consumer credit knowledge test.

2. Personal bankruptcy petitioners used a low number of sources (two or less) to gain consumer credit knowledge.

Hypothesis one was accepted on the basis that 88.33 percent of the participating bankruptcy petitioners scored 60 percent or less on the specified consumer credit knowledge test. The mean score on the test was 45.08 percent.

Hypothesis two was accepted on the basis that 75.00 percent of the participating bankruptcy petitioners had used two or less sources to gain consumer credit knowledge. The mean number of sources which had been used was 1.52.

Several conclusions can be drawn from this investigation:

1. Personal bankruptcy petitioners were lacking in consumer credit knowledge.

2. Personal bankruptcy petitioners with higher levels of education had greater consumer credit knowledge.

3. Personal bankruptcy petitioners had used a low number of sources to gain consumer credit knowledge.

4. Personal bankruptcy petitioners with higher educational levels had used more sources to gain consumer credit knowledge.

5. High school classes were used most frequently as a source of consumer credit knowledge.

6. The consumer credit knowledge test questions which tested ability to recognize varying rates charged by credit sources were the least difficult for personal bankruptcy petitioners.

7. The consumer credit knowledge test questions which tested ability to compute interest and rates were the most difficult for personal bankruptcy petitioners.

RECOMMENDATIONS

The present investigation was concerned with consumers who had filed a bankruptcy petition thus indicating their inability to effectively use credit. Further research is needed to determine the consumer credit knowledge and sources used to gain consumer credit knowledge of a group of consumers who have used credit extensively but have maintained a high credit rating. This would enable a comparison between the two groups of consumers as to consumer credit knowledge as measured by this specific knowledge test and sources used to obtain consumer credit knowledge.

It was found that a high school class was the source most frequently used in gaining consumer credit knowledge. It is recommended that an investigation be made to discover what consumer credit information is presently available to high school students.

It is possible that the personal bankruptcy petitioners had obtained much of their knowledge through personal experience. Thus the knowledge may have come at a time when it was too late to help them avoid financial difficulties. Help in planning a high school course could be obtained by having bankruptcy petitioners identify areas where they think additional knowledge would have been valuable in helping them to avoid financial difficulties.

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APPENDIX

June 28, 1968

Dear Attorney _____,

As a graduate student at Utah State University in the Department of Household Economics and Management, I have selected a research project concerned with the consumer credit knowledge of personal bankruptcy petitioners.

In order to complete this study, it is necessary that a short questionnaire and consumer credit knowledge test be administered to a group of bankruptcy petitioners.

The enclosed letter has been sent to your client asking for his participation in this study. Your cooperation in encouraging his participation will be very much appreciated.

The information obtained will not be identified in any way with the name of the subject. Data will be compiled and reported collectively. Results of the study will be available to you at your request.

Sincerely yours,

(Miss) Bernice Nelson

June 28, 1968

Dear (name of bankruptcy petitioner),

As a graduate student at Utah State University, I am working on a research project concerning consumer credit. There has been very little research done on this subject, and I am interested in determining what people know about credit.

Would you please help with this project by meeting with me following your first meeting of creditors (time of hearing) and filling out a questionnaire.

Your name will not be used in the study. The results of the group will be reported rather than of each individual.

I would appreciate your taking the time to help me with this research project.

Sincerely yours,

(Miss) Bernice Nelson

PERSONAL DATA QUESTIONNAIRE

1. Name: _____
2. Marital status: Married _____ Separated _____ Divorced _____
Widowed _____ Single _____

3. Education:

Check those you have completed.

Junior High School _____
High School _____
Trade school or 2 year program at University _____
University degree _____

4. Consumer credit knowledge:

A. Check any of the following in which you were enrolled in a course which taught about consumer credit.

University class _____
Adult education class _____
Extension class _____
High school class _____
Trade school class _____

B. Check any of the following sources from which you have received consumer credit knowledge.

Place of employment _____
Personal counseling _____
Books _____
Pamphlets _____
Radio _____
Television _____
Newspapers _____
Magazines _____

(Please list names of magazines
where you obtained this information)

CONSUMER CREDIT KNOWLEDGE TEST

1. If you finance a purchase through a small loan company instead of an installment retail dealer, your finance charges will probably be
 - x (a) more.
 - (b) slightly less.
 - (c) much less.
 - (d) about the same.
 - (e) I don't know.
2. Credit unions make loans to
 - (a) anyone.
 - x (b) any member.
 - (c) anyone recommended by a member.
 - (d) any member who has belonged for a year or more.
 - (e) I don't know.
3. If a friend suggested that you borrow from a bank to buy your TV set instead of buying it on installment from the dealer, you should consider it
 - (a) ridiculous because banks don't lend money for such purchases.
 - (b) poor advice because bank rates are usually higher.
 - x (c) worth considering because bank rates are sometimes lower.
 - (d) unreasonable because so much "red tape" is involved.
 - (e) I don't know.
4. If you are told that a bank charges a certain "discount rate" of interest, you know that
 - (a) the rate is reduced if you repay the loan within 90 days.
 - x (b) you must pay the total amount of the interest at the time you secure the loan.
 - (c) the stated rate is higher than the actual rate.
 - (d) the rate is lower than that charged by most other banks.
 - (e) I don't know.
5. Some banks use a credit card system offering the consumer credit at $1\frac{1}{4}$ - $1\frac{1}{2}$ percent per month on the unpaid balance. This means the bank is charging a true annual interest rate of
 - (a) $1\frac{1}{4}$ - $1\frac{1}{2}$ percent.
 - (b) 6 - 12 percent.
 - x (c) 14 - 18 percent.
 - (d) 20 - 24 percent.
 - (e) I don't know.

6. If you are unable to keep up the payments on a TV set you have purchased on the installment plan, the seller will most likely
- x (a) pick up the set and keep the payments you have made.
 - (b) pick up the set and return to you the payments you have made.
 - (c) have you arrested for failing to meet the terms of the contract you signed.
 - (d) pick up the set and give you a cheaper model which costs no more than the payments you have made.
 - (e) I don't know.
7. If a cash customer and a 30-day charge account customer buy the same dress at the same store, you could expect
- (a) the cash customer to pay less.
 - (b) the charge customer to pay less.
 - x (c) both to pay the same price.
 - (d) the charge customer to pay a carrying charge at the end of the month.
 - (e) I don't know.
8. Which lender listed below charges the lowest rate for credit?
- (a) dealers offering installment purchases
 - x (b) credit unions
 - (c) loan companies
 - (d) pawnbrokers
 - (e) I don't know.
9. If you buy a \$300 refrigerator "on time" with a stated 6 percent carrying charge of \$18 and pay off the \$318 in twelve equal monthly payments with no down payment, you are actually paying an interest rate of
- (a) 6 percent.
 - (b) about 9 percent.
 - x (c) about 12 percent.
 - (d) between 18 and 24 percent.
 - (e) I don't know.
10. If you bought the above refrigerator with a \$25 down payment but still paid \$18 carrying charges and still pay off your debt in equal monthly payments, your interest rate would
- (a) decrease slightly.
 - (b) decrease greatly.
 - x (c) increase.
 - (d) remain the same.
 - (e) I don't know.

11. If you buy a car for \$2650, pay \$150 down, and pay off the rest at \$80 per month for 36 months, you will pay about how much in interest on your car?
- (a) \$250
 - x (b) \$375
 - (c) \$500
 - (d) \$750
 - (e) I don't know.
12. The new "truth-in-lending" law will
- (a) set ceilings on the credit rate which can be charged.
 - (b) regulate the credit industry.
 - x (c) require that interest be stated in terms of true annual percentage rates.
 - (d) dictate terms of a credit contract.
 - (e) I don't know.
13. Your installment contract with a seller may provide for garnishment action if you do not meet your payments. Garnishment means that your employers will be ordered by the court to do one of the following things: he will have to
- (a) fire you unless you pay your debt.
 - (b) pay all of your wages to your creditor until your debt is paid in full.
 - (c) warn you about your unpaid bills.
 - x (d) pay part of your wages to your creditor until your debt is paid in full.
 - (e) I don't know.
14. Most Utah banks are now charging at least a "6 percent discount rate, the loan to be repaid in equal monthly payments." This means a true annual interest rate of
- (a) 6 percent.
 - (b) about 6.5 percent.
 - x (c) about 12 percent.
 - (d) about 9 percent.
 - (e) I don't know.
15. If an automobile dealer requires or pressures you to finance your purchase at a particular place, it is most likely an indication that
- (a) he has arrangements with a finance company that will save you money.
 - (b) he is a black marketer whom you had better stay away from.
 - (c) he has a friend in the finance business.
 - x (d) he gets a kickback on the finance charges which will probably be higher accordingly.
 - (e) I don't know.

16. If you borrow \$200 at a bank and at the end of one year pay the bank \$212, you have paid interest at the annual rate of
- x (a) 6 percent.
 - (b) 12 percent.
 - (c) 4 percent.
 - (d) 24 percent.
 - (e) I don't know.
17. In the majority of cases, loan companies allow how much time for paying off their loans?
- (a) over 24 months
 - x (b) 6 to 18 months
 - (c) 90 days
 - (d) 30 days
 - (e) I don't know.
18. Which of the following sources would have the lowest true annual interest rate?
- (a) installment purchase from dealer
 - (b) commercial bank loan
 - (c) loan from a finance or small loan company
 - x (d) loan on an insurance policy
 - (e) I don't know.
19. If you lose your credit card you should
- x (a) wire or phone the credit card company telling them of the loss, followed by a registered letter informing them of the lost card.
 - (b) forget about it, since no one but you can legally use your card.
 - (c) put an advertisement in the newspaper saying that you are not responsible for any bills charged to your credit card.
 - (d) go to the nearest place of business which accepts your card and tell the businessman of your credit loss.
 - (e) I don't know.
20. As a protection to both the consumer and the creditor, the law in the state of Utah
- (a) does not allow credit to be charged on a delinquent account if a contract has not been signed to specify credit rate.
 - (b) requires that a consumer sign a contract whenever making a credit purchase.
 - (c) allows the creditor to request any rate of interest he desires on a delinquent account, if a contract was not signed.
 - x (d) allows a legal rate of 6 percent interest to be charged on delinquent accounts if no rate was previously specified.
 - (e) I don't know.

21. The power of attorney is sometimes found in the conditional sales contract. This power is used to

- (a) get the services of a lawyer for the buyer of goods in case of a lawsuit.
- (b) provide an attorney for the seller, at the expense of the buyer.
- x (c) legally provide for the assignment of an employee's wages.
- (d) perform but one legal duty--that of clearing title of goods.
- (e) I don't know.

22. What annual, or yearly, interest rate is being charged by the loan company which advertises that "\$50 for 30 days will only cost you \$1"?

- (a) 2 percent
- (b) 6 percent
- (c) 10 percent
- x (d) 24 percent
- (e) I don't know.

23. A loan from a pawnbroker

- x (a) need not ever be repaid if the borrower does not wish to.
- (b) must be repaid in 30 days.
- (c) must be repaid in 6 months.
- (d) is repaid according to verbal agreement between pawnbroker and borrower.
- (e) I don't know.

24. Mr. Carey wants to purchase a piano. At Sam's place he finds a piano for \$450. The terms are \$50 down and 20 monthly installments of \$20 each. If he had the cash he could purchase the piano for \$360.

At Jim's place, Mr. Carey finds a very similar piano for \$435. The terms here are a \$75 down payment, the remaining \$360 to be paid in 30 equal monthly installments of \$12 each, plus a service charge of \$2 a month.

Mr. Carey wants to purchase a piano but does not have the money to pay cash. If he purchases the piano "on time" at

- (a) Jim's place the total cost will be less.
- x (b) Sam's place the total cost will be less.
- (c) either place the cost will be the same.
- (d) the place with the most friendly salesman he will probably get the best service.
- (e) I don't know.

25. If you pay someone a fee to use your money for the payment of your debts you are dealing with a

- (a) credit union.
- x (b) debt pooler.
- (c) credit bureau.
- (d) loan shark.
- (e) I don't know.

VITA

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Master of Science

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